

Orchard View Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2008

Orchard View Schools

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Orchard View School District

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Orchard View School District's (the District) Management Discussion and Analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, and identify changes in the District's financial position and its ability to address the next and subsequent year challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) "Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments" and is intended to provide the financial results for the fiscal year ending June 30, 2008.

District Wide Financial Statements

The District wide statements provide a perspective of the District as a whole. The Statement of Net Assets and the Statement of Activities, which appear first in the financial statements, report information on the School District as a whole and it's activities to indicate the financial condition of the District. These statements are prepared using the full accrual basis of accounting and include all assets and liabilities, which is similar to private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets combines and consolidates governmental funds' current financial resources (short-term expendable resources) with capital assets and long-term obligations, regardless of whether they are currently available or not.

Consistent with the full accrual basis method of accounting the Statement of Activities accounts for current year revenues and expenses regardless of when cash is received or paid. The intent of this statement is to summarize and simplify the user's analysis of the costs of various District services.

Fund Financial Statements

Under this basis of accounting, revenues are recorded when received except where they are not measurable and available and therefore represent resources that may be appropriated. Expenditures are accounted for in the period that goods and services are used in school programs. In addition, capital asset purchases are expensed and not recorded as an asset. Debt payments are recorded as expenditures in the current year and future debt obligations are not recorded.

Fund types include the General Fund, Community Service Fund, School Service Funds, Fiduciary Funds, Capital Projects Fund, and Debt Retirement Fund. The General Fund is used primarily to account for the general education requirements of the District. Its revenues are derived from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

The Community Service Fund is comprised of some general education requirements for Alternative Education, Adult Education, and Preschool. It also is comprised of Child Care, Head Start, and other community service of which revenue may be provided through grants and self-supporting programs (local revenues). The School Service Fund is used to account for Food Service and Athletics. The Fiduciary Fund accounts for assets held by the District in a trustee capacity or as an agent for various student groups and related activities. The Capital Projects Fund accounts for the 2003 building project. The Debt Retirement Fund accounts for the tax revenues received from taxpayers and the payments for the 2003 building project debt.

Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Financial Analysis of the District as a Whole

	Summary Comparison of Net Assets	
	<u>2006/07</u>	<u>2007/08</u>
Assets		
Current assets	\$ 10,619,398	\$ 9,680,861
Non – Current assets	572,973	567,172
Capital assets, net of accumulated depreciation	<u>47,804,309</u>	<u>48,950,442</u>
 Total assets	 <u>\$ 58,996,680</u>	 <u>\$ 59,198,475</u>
 Liabilities		
Current liabilities	\$ 6,611,677	\$ 8,537,204
Long-term liabilities		
Due within 1 year	1,468,420	1,545,661
Due in more than one year		
Bonds, capital leases & contract	<u>46,555,365</u>	<u>45,947,716</u>
 Total liabilities	 <u>\$ 54,635,462</u>	 <u>\$ 56,030,581</u>
 Net assets		
Total capital assets, net of related debt	\$ 5,251,049	\$ 6,660,593
Restricted		
Permanent Funds	35,806	36,182
Unrestricted	<u>(925,637)</u>	<u>(3,528,881)</u>
 Total net assets	 <u>\$ 4,361,218</u>	 <u>\$ 3,167,894</u>
 Total liabilities and net assets	 <u>\$ 58,996,680</u>	 <u>\$ 59,198,475</u>

As indicated by the statement above, total net assets are \$3,167,894. Net assets can be separated into three categories: net capital assets net of related debt, restricted assets, and unrestricted assets. Net capital assets are a combination of funds available for capital assets, plus capital assets at original cost less accumulated depreciation and related debt. Funds available for capital assets total \$368,081. The original cost of capital assets is \$58,207,397, which is an accumulation of capital assets year after year less any capital disposals. The accumulated depreciation is the accumulation of depreciation expense since acquisition. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less an estimated salvage value, expensed over the estimated useful life of the asset. Total accumulated depreciation is \$9,256,955. Total long-term debt related to capital assets is \$42,929,592.

Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008

The remaining assets of \$3,167,894 are unrestricted. The unrestricted fund balance is an accumulation of prior years' operating results. This balance is directly affected each year by the District's operating results.

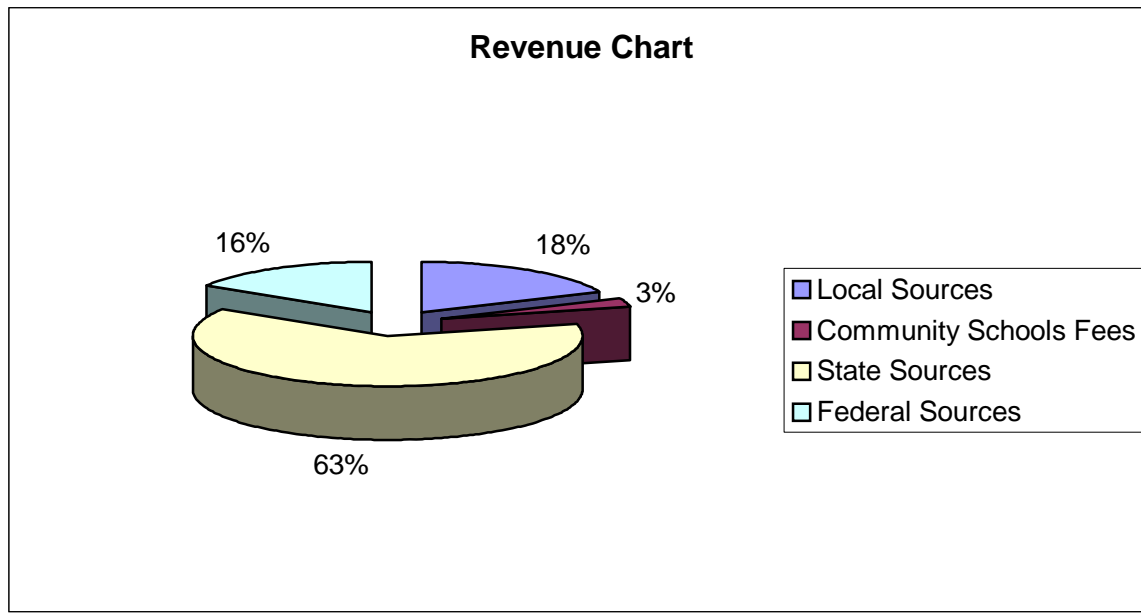
Results of Operations (Comparison)	<u>2006/07</u> <u>Amounts</u>	<u>2007/08</u> <u>Amounts</u>	<u>% of Total</u>
Program Revenue			
Charges for services- local and intermediate	\$ 1,558,961	\$1,337,290	4.0%
Operating grants - federal and state	<u>8,881,351</u>	<u>8,814,567</u>	<u>26.0%</u>
Total program revenue	<u>\$ 10,440,312</u>	<u>\$10,151,857</u>	<u>30.0%</u>
General Revenue			
Property taxes, levied for general purposes	\$ 3,153,182	\$ 3,033,341	9.0%
State of Michigan aid, unrestricted	<u>17,089,297</u>	<u>17,430,018</u>	<u>53.0%</u>
Total foundation allowance	<u>\$ 20,242,479</u>	<u>\$ 20,463,359</u>	<u>62.0%</u>
Property taxes, levied for debt services	\$ 2,072,987	\$ 2,379,788	7.0%
Unrestricted Investment Earnings	394,369	120,922	1.0%
Other	<u>39,618</u>	<u>19,314</u>	<u>0.0%</u>
Total revenues	<u>\$ 33,189,765</u>	<u>\$ 33,135,240</u>	<u>100.0%</u>
Expenses			
Instruction	\$ 18,346,701	\$ 17,048,307	49.7%
Support Services	8,899,282	9,193,335	26.8%
Community Services	3,774,669	4,048,964	11.8%
Food Services	1,071,806	1,304,986	3.8%
Athletics	607,155	535,918	1.5%
Interest on Long-term debt	2,184,978	2,166,731	6.3%
Unallocated depreciation	<u>1,081,036</u>	<u>30,323</u>	<u>.1%</u>
Total expenses	<u>\$ 35,965,627</u>	<u>\$ 34,328,564</u>	<u>100.0%</u>
Decrease in net assets	<u>\$ (2,775,862)</u>	<u>\$ (1,193,324)</u>	

As indicated above net assets decreased \$(1,193,324).

**Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

Revenues

The following chart illustrates the District's sources of revenues by percentage:



- Revenue chart is based on all District Funds combined

Sources of Revenues

Local sources of revenues total \$6,816,278, and include revenues to the General Fund of \$3,125,828, Athletic Fund of \$87,465, Food Service Fund of \$261,791, Community Education of \$11,283, Capital Projects of \$40,977, Debt Service of \$2,379,788, and Student Loan of \$376. In addition, Community School fees total \$908,770, and include revenues received by the Community Service Fund for services provided to the community.

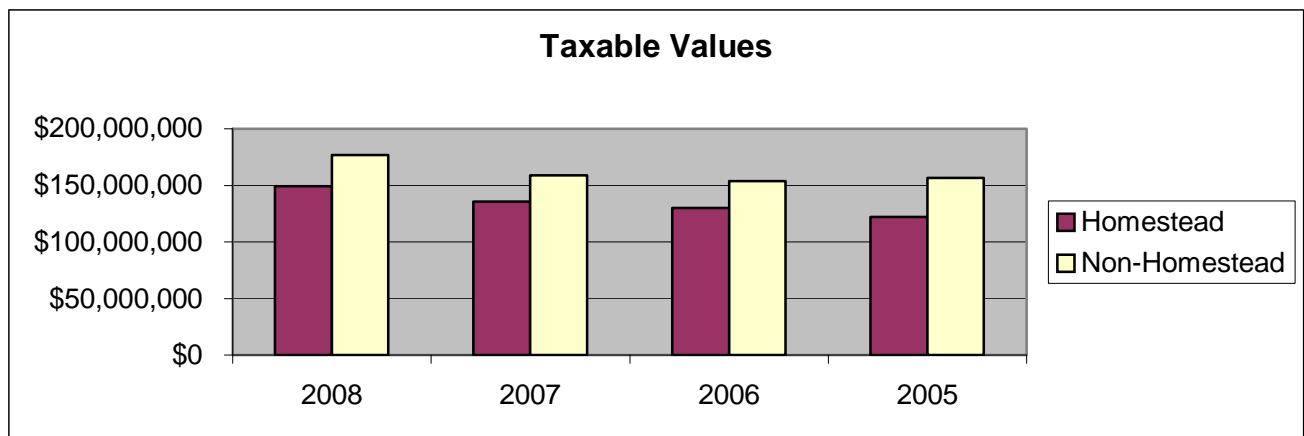
State sources of revenue total \$20,188,642, and include revenues to the General Fund of \$18,219,615, Community Service Fund of \$1,891,375 and Food Service Fund of \$77,652. Included in the state source of revenue is the membership foundation allowance of \$12,204,141. State sources of revenue make up 55% of General Fund revenues. This ties the District directly to the State's overall economy.

Federal sources of revenue total \$5,163,265, and include revenue to the General Fund of \$832,962, Community Service Fund of \$3,427,532 and Food Service Fund of \$902,771.

**Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

Property Taxes

A significant portion of local revenues is provided from property taxes for the General Fund. Property tax revenue totaled \$3,033,341. This amount is obtained through a voter approved 18-mill levy on the taxable value of non-homestead properties for the District's operations. Over the last 4 years taxable values have increased each year on average 6.4% and 3.2% for homestead and non-homestead properties, respectively. The following graph illustrates this increase:



Unrestricted State Aid Foundation Allowance

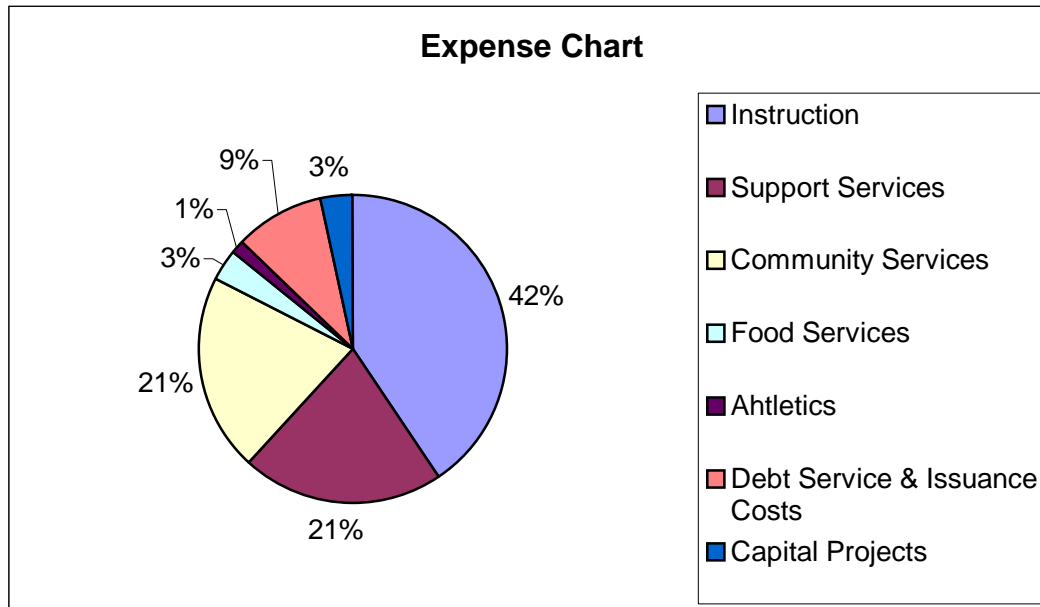
A significant portion of state funding to the District is through the foundation allowance. The foundation allowance is funding from the state for each student, set annually. The District's foundation allowance is \$7,400 per student for the 2007/2008 fiscal year, which is an increase of \$176/pupil from the 2006/07 school year. The number of students to be funded is calculated by student enrollment blended at 75% of current year's September count and 25% of prior year's February count. Total blended student enrollment for this fiscal year is 2,876.89.

Expenses

Expenses include Instruction of \$14,966,210, Support Services of \$7,757,278, Community Services of \$7,718,678, Food Services of \$1,244,625, Athletics of \$517,947, Debt Service of \$3,440,288, and Capital Projects of \$1,237,680. In the District wide statements Instruction includes instructional support and related fringe benefits whereas these expenses are included in Support Services in the fund level statements for budgeting purposes.

**Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008**

The following chart illustrates the District's expenses by percentages:



- Expense chart is based on all District Funds combined

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

The significant variances that were noted between the final budget and actual amounts were as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues			
Local Sources	3,323,285	3,125,828	197,457
Expenses			
Instruction			
Added Needs	2,356,727	2,395,257	38,530
Business	427,469	487,859	60,390
Pupil Transportation	1,151,701	1,188,481	36,780

Orchard View School District
Management's Discussion and Analysis
For the Year Ended June 30, 2008

These variances may be significant in some instances due to the following: Local Source Revenues were less due to taxes receivable which may never be received; Added Needs were higher due to Special Education costs that are not always known during the school year, making it difficult to budget; Business Expenses were higher this year due to the increase in cash flow borrowing resulting in a higher interest expense; Pupil Transportation Expenses were higher due to Special Education transportation costs that are not always known during the school year, also making it difficult to budget for.

Capital Assets

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital Assets, being depreciated:				
Buildings and improvements	\$ 50,385,298	\$ 4,814,678	\$ 90,696	\$ 55,109,280
Furniture and equipment	2,304,838	336,590	125,000	2,516,428
Vehicles	381,689	-	-	381,689
Total Capital Assets, being depreciated	\$ 53,071,825	\$ 5,151,268	\$ 215,696	\$ 58,007,397
Less Accumulated Depreciation:				
Buildings and improvements	6,880,075	911,788	58,049	7,733,814
Furniture and equipment	1,125,329	171,165	16,666	1,279,828
Vehicles	206,842	36,471	-	243,313
Total accumulated depreciation	\$ 8,212,246	1,119,424	74,715	9,256,955
Total Capital Assets being depreciated, net	44,859,579	4,031,844	140,981	48,750,442
Assets, not being depreciated				
Construction in progress	2,744,730	-	2,744,730	-
Land	200,000	-	-	200,000
Capital Assets, net	\$ 47,804,309	\$ 4,031,844	\$ 2,885,711	\$ 48,950,442

At June 30, 2008, the District had \$48,950,442 invested in a broad range of capital assets, including land, buildings, furniture and equipment. This is an increase in capital assets of \$1,146,133 from last year and includes all building improvements that have been on-going for the past 5 years.

Orchard View School District

Management's Discussion and Analysis

For the Year Ended June 30, 2008

Economic Factors and Next Year's Budgets and Rates

The Orchard View School District Administration considers many factors when setting the District's 2008/09 fiscal year budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008/09 fiscal year is 25% of the February 2009 and 75% of the September 2008 student count. Approximately 55% of the General Fund revenue is from the foundation allowance. The 2008/09 fiscal year's foundation allowance for the District is expected to increase by \$105 per FTE, for a total of \$7,505. However, for budgeting purposes at this time, we are using a conservative approach by projecting a \$50 increase in last year's foundation allowance. The 2008/09 original budgets contain the decrease in retirement cost of 1.02%.

In May 2006, the Orchard View community passed a 20 year - 18 mills Non-Homestead operating tax levy. In prior years, the district was affected by the Headlee Rollback and could only levy 17.7714 for the 2005/06 school years, instead of 18 mills. The difference of approximately \$35,000 was lost due to the Headlee Rollback. This doesn't seem like a substantial amount of money, but this money never returns to the school district and it adds up year after year to be of substantial amounts.

Orchard View does have big challenges ahead as we move forward with such a small "fund balance" in the General Fund. We have initiated a district-wide "Go Green" initiative in which we are hoping to save money by conserving on copiers/printers, electricity, fuel, paper usage, and other utilities.

Long – term Debt

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
Governmental Activities:					
Bonds	\$ 44,101,579	\$ -	\$ 1,190,000	\$ 42,911,579	\$ 1,263,241
Plus bond issuance premium	576,140	-	30,323	545,817	-
Less deferred amount on refunding	(589,334)	-	(25,688)	(563,646)	-
	44,088,385	-	1,194,635	42,893,750	1,263,241
Other obligations	3,935,400	1,079,401	415,174	4,599,627	282,420
	<u>\$ 48,023,785</u>	<u>\$ 1,079,401</u>	<u>\$ 1,609,809</u>	<u>\$ 47,493,377</u>	<u>\$ 1,545,661</u>

Contacting the School District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration Office, 35 S. Sheridan Drive, Muskegon, Michigan 49442.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 9, 2008

Board of Education
Orchard View Schools
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orchard View Schools (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Orchard View Schools' management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Orchard View Schools, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated October 9, 2008, on our consideration of Orchard View Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for in assessing the results of our audit.

BRICKLEY DELONG

Board of Education
October 9, 2008
Page 2

The management's discussion and analysis and budgetary comparison information on pages i - viii and 27 and 28 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Orchard View Schools' basic financial statements. The combining nonmajor fund financial statements on pages 30 and 31 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

Orchard View Schools
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS	Governmental activities
CURRENT ASSETS	
Cash and cash equivalents	\$ 3,768,212
Investments	371,245
Receivables	6,293
Due from other governmental units	5,520,074
Inventories	12,514
Prepaid items	<u>2,523</u>
Total current assets	9,680,861
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	200,000
Depreciable	48,750,442
Bond issuance cost, net	271,662
Note and interest receivable	<u>295,510</u>
Total noncurrent assets	<u>49,517,614</u>
Total assets	59,198,475
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
State aid loan	4,868,813
Accounts payable and accrued liabilities	3,310,943
Due to other governmental units	130,893
Deferred revenue	226,555
Bonds and other obligations, due within one year	<u>1,545,661</u>
Total current liabilities	10,082,865
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	<u>45,947,716</u>
Total liabilities	<u>56,030,581</u>
NET ASSETS	
Invested in capital assets, net of related debt	6,660,593
Restricted for:	
Permanent funds	36,182
Unrestricted	<u>(3,528,881)</u>
Total net assets	<u><u>\$ 3,167,894</u></u>

The accompanying notes are an integral part of this statement.

Orchard View Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

<i>Functions/Programs</i>	Expenses	Program Revenue		Net (Expense)
		Charges for services	Operating grants and contributions	Revenue and Changes in Net Assets
Governmental activities				Governmental activities
Instruction	\$ 17,048,307	\$ 95,835	\$ 3,584,998	\$ (13,367,474)
Support services	9,193,335	-	680,310	(8,513,025)
Community services	4,048,964	908,769	3,568,836	428,641
Food services	1,304,986	245,221	980,423	(79,342)
Athletics	535,918	87,465	-	(448,453)
Interest on long-term debt	2,166,731	-	-	(2,166,731)
Unallocated amortization	30,323	-	-	(30,323)
Total governmental activities	<u>\$ 34,328,564</u>	<u>\$ 1,337,290</u>	<u>\$ 8,814,567</u>	(24,176,707)
General revenues				
Property taxes, levied for				
General purposes				3,033,341
Debt service				2,379,788
Grants and contributions not restricted to specific programs				17,430,018
Unrestricted investment earnings				120,922
Miscellaneous				14,577
Gain on sale of capital assets				4,737
Total general revenues and special items				<u>22,983,383</u>
Change in net assets				(1,193,324)
Net assets at July 1, 2007				<u>4,361,218</u>
Net assets at June 30, 2008				<u>\$ 3,167,894</u>

The accompanying notes are an integral part of this statement.

Orchard View Schools
BALANCE SHEET
Governmental Funds
June 30, 2008

	General Fund	2003 Capital Projects	Community Service	Other governmental funds	Total governmental funds
ASSETS					
Cash and cash equivalents	\$ 3,309,083	\$ 6,172	\$ 51,860	\$ 401,097	\$ 3,768,212
Investments	-	371,245	-	-	371,245
Receivables	-	-	-	6,293	6,293
Due from other governmental units	4,150,103	1,600	898,630	147,424	5,197,757
Due from other funds	108,061	3,537	3,437	57,931	172,966
Inventories	-	-	-	12,514	12,514
Prepaid items	2,523	-	-	-	2,523
Total assets	<u>\$ 7,569,770</u>	<u>\$ 382,554</u>	<u>\$ 953,927</u>	<u>\$ 625,259</u>	<u>\$ 9,531,510</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
State aid loan	\$ 4,868,813	\$ -	\$ -	\$ -	\$ 4,868,813
Accounts payable	420,584	14,473	190,239	31,261	656,557
Accrued liabilities	1,824,981	-	86,938	-	1,911,919
Due to other governmental units	130,893	-	-	-	130,893
Due to other funds	62,946	-	108,061	1,959	172,966
Deferred revenue	-	-	158,538	-	158,538
Total liabilities	<u>7,308,217</u>	<u>14,473</u>	<u>543,776</u>	<u>33,220</u>	<u>7,899,686</u>
Fund balances					
Reserved for:					
Inventories	-	-	-	12,514	12,514
Prepaid items	2,523	-	-	-	2,523
Permanent funds	-	-	-	36,182	36,182
Capital projects	-	368,081	-	56,968	425,049
Debt service	-	-	-	274,738	274,738
Unreserved					
Undesignated					
General Fund	259,030	-	-	-	259,030
Community service	-	-	410,151	-	410,151
School service	-	-	-	211,637	211,637
Total fund balances	<u>261,553</u>	<u>368,081</u>	<u>410,151</u>	<u>592,039</u>	<u>1,631,824</u>
Total liabilities and fund balances	<u>\$ 7,569,770</u>	<u>\$ 382,554</u>	<u>\$ 953,927</u>	<u>\$ 625,259</u>	<u>\$ 9,531,510</u>

The accompanying notes are an integral part of this statement.

Orchard View Schools
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total fund balance—governmental funds	\$	1,631,824
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not current financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 58,207,397	
Accumulated depreciation	<u>(9,256,955)</u>	48,950,442

Bond issuance cost are not capitalized and amortized in the governmental funds.

Bond issuance cost	312,829	
Accumulated amortization	<u>(41,167)</u>	271,662

Other long-term note and interest receivable in governmental activities is not reported in the
governmental funds.

295,510

Revenue is recognized in the governmental activities is not recognized in the
governmental funds when not collected within 60 days of the year end.

254,297

Accrued interest in government activities is not reported in governmental funds.

(742,464)

Long-term liabilities in governmental activities are not due and payable in the current period
and are not reported in the governmental funds.

Bonds, notes and other loans	(47,078,216)	
Early retirement services	(126,912)	
Compensated absences	<u>(288,249)</u>	<u>(47,493,377)</u>

Net assets of governmental activities in the Statement of Net Assets

\$ 3,167,894

The accompanying notes are an integral part of this statement.

Orchard View Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2008

	General Fund	2003 Capital Projects	Community Service	Other governmental funds	Total governmental funds
REVENUES					
Local sources					
Property taxes	\$ 3,033,341	\$ -	\$ -	\$ 2,379,788	\$ 5,413,129
Investment earnings	46,674	40,977	11,283	16,947	115,881
Fees and charges	-	-	908,770	332,685	1,241,455
Other	<u>45,813</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45,813</u>
Total local sources	3,125,828	40,977	920,053	2,729,420	6,816,278
State sources	18,219,615	-	1,891,375	77,652	20,188,642
Federal revenues	<u>832,962</u>	<u>-</u>	<u>3,427,532</u>	<u>902,771</u>	<u>5,163,265</u>
Total revenues	22,178,405	40,977	6,238,960	3,709,843	32,168,185
EXPENDITURES					
Instruction	14,966,210	-	-	-	14,966,210
Support services	7,757,278	-	-	-	7,757,278
Community services	2,041	-	7,716,637	-	7,718,678
Food services	-	-	-	1,244,625	1,244,625
Athletics	-	-	-	517,947	517,947
Debt service					
Principal	-	-	-	1,440,000	1,440,000
Interest and other charges	-	-	-	2,000,288	2,000,288
Capital projects	<u>-</u>	<u>1,237,680</u>	<u>-</u>	<u>-</u>	<u>1,237,680</u>
Total expenditures	22,725,529	1,237,680	7,716,637	5,202,860	36,882,706
Excess (deficiency) of revenues over (under) expenditures	(547,124)	(1,196,703)	(1,477,677)	(1,493,017)	(4,714,521)
OTHER FINANCING SOURCES (USES)					
Transfers from other governmental units					
and other transactions	807,495	-	-	-	807,495
Loan proceeds	-	-	-	1,050,838	1,050,838
Transfers in	-	-	36,775	696,843	733,618
Transfers out	(733,618)	-	-	-	(733,618)
Transfers to other governmental units					
and other transactions	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,581)</u>	<u>(22,581)</u>
Total other financing sources (uses)	73,877	-	36,775	1,725,100	1,835,752
Net change in fund balances	(473,247)	(1,196,703)	(1,440,902)	232,083	(2,878,769)
Fund balances at July 1, 2007	<u>734,800</u>	<u>1,564,784</u>	<u>1,851,053</u>	<u>359,956</u>	<u>4,510,593</u>
Fund balances at June 30, 2008	<u>\$ 261,553</u>	<u>\$ 368,081</u>	<u>\$ 410,151</u>	<u>\$ 592,039</u>	<u>\$ 1,631,824</u>

The accompanying notes are an integral part of this statement.

Orchard View Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2008

Net change in fund balance—total governmental funds	\$	(2,878,769)
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Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report outlays for capital assets and bond issuance costs as expenditures; in the Statement of Activities these costs are depreciated and amortized over their estimated useful lives, respectively.

Depreciation expense	\$ (1,119,424)	
Capital outlay	<u>2,406,538</u>	1,287,114

Debt proceeds are other financing sources in the governmental funds, but the proceeds increase long-term debt in the Statement of Net Assets.		(1,079,401)
--	--	-------------

Interest income on long-term notes receivable is recorded in the Statement of Activities when earned, but is not reported in governmental funds until received.		7,140
--	--	-------

Amortization of bond issuance costs is not an expense in the governmental funds while than amortization does reduce non-current assets in the Statement of Net Assets.		(12,941)
---	--	----------

Revenue is recognized in the governmental activities when earned, but is not reported in the governmental funds until received.		186,283
--	--	---------

Record loss on disposal of assets		(140,984)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		1,609,809
--	--	-----------

Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		<u>(171,575)</u>
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Change in net assets of governmental activities	\$	<u><u>(1,193,324)</u></u>
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The accompanying notes are an integral part of this statement.

Orchard View Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 Agency Funds
 June 30, 2008

		<u>Agency Funds</u>	
	<u>Combined</u>	<u>Student activities</u>	<u>Other organizations</u>
ASSETS			
Cash	\$ <u>922,371</u>	\$ <u>199,762</u>	\$ <u>722,609</u>
LIABILITIES			
Deposits held for others	\$ <u>922,371</u>	\$ <u>199,762</u>	\$ <u>722,609</u>

The accompanying notes are an integral part of this statement.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Orchard View Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District’s expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District’s primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The *2003 Capital Projects Fund* accounts for expenditures related to the construction of major capital projects.
- The *Community Service Fund* accounts for expenditures related to community schools services activities.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects funds* account for the receipt of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District’s programs.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation—Continued

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30, 2008 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund and Debt Retirement Fund is generally allocated to each fund using a weighted average of balances for the principal.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Deposit and Investments—Continued

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the School District levied the following amounts per \$1,000 of assessed valuation.

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18
Debt service fund - Homestead and non-homestead	7

Inventories

Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$5,000, except for technology of \$1,000 or more and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$5,000, except for technology of \$1,000 or more as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	50 years
Buses and other vehicles	15 years
Furniture and other equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Compensated Absences

The liability for compensated absences reported in the district-wide statement consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

For fund financial statements, no compensated absence liability is reported for current employees and a compensated absence liability is reported for terminated employees only when the termination date is on or before year end.

Early Retirement Incentives

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not specified legally enforceable due date.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as unearned revenue.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental statement of net assets. Bond premiums and discounts, as well as bond issuance costs are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual budgets lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget is amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The School District does not consider these amendments to be significant.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2008, expenditures exceeded appropriations in basic programs by \$37,013 in added needs by \$38,530, business services by \$60,390, and pupil transportation services by \$36,780. These over expenditures were partially funded by greater than anticipated state in the General Fund due to special education revenues that came in after the fiscal year end in excess of appropriated amounts and the balance was funded by the fund balance in the General Fund. Pupil expenditures exceeded appropriations by \$769 in the Community Service Fund. These over expenditures were funded by local revenues in excess of budgeted amount.

School Bond Construction Compliance

The capital projects funds include capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's School Code.

Following is a summary of the revenue and expenditures in 2003 Capital Projects Fund from the inception of the funds through June 30, 2008.

	2003 Building Capital Projects Fund
Revenue and bond proceeds	\$ 49,551,503
Expenditures	49,183,424

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2008, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
Fifth Third Institutional Government Preferred fund - not rated	\$ 371,245	1	not rated	<u>100%</u>

Interest rate risk. The School District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$4,230,892 of the School District's bank balance of \$4,430,892 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Custodial credit risk - investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District will minimize custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, brokers, dealers, intermediaries and advisors with which the School District will do business.

Concentration of credit risk. The School District places no limit on the amount the District may invest with any one issuer. More than 5 percent of the School District's investments are in Fifth Third Institutional Government Preferred fund.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 200,000	\$ -	\$ -	\$ 200,000
Construction in progress	2,744,730	-	2,744,730	-
Total capital assets, not being depreciated	2,944,730	-	2,744,730	200,000
Capital assets, being depreciated:				
Buildings and improvements	50,385,298	4,814,678	90,696	55,109,280
Furniture and equipment	2,304,838	336,590	125,000	2,516,428
Vehicles	381,689	-	-	381,689
Total Capital Assets, being depreciated	53,071,825	5,151,268	215,696	58,007,397
Less accumulated depreciation:				
Buildings and improvements	6,880,075	911,788	58,049	7,733,814
Furniture and equipment	1,125,329	171,165	16,666	1,279,828
Vehicles	206,842	36,471	-	243,313
Total accumulated depreciation	8,212,246	1,119,424	74,715	9,256,955
Total capital assets, being depreciated, net	44,859,579	4,031,844	140,981	48,750,442
Capital assets, net	\$ 47,804,309	\$ 4,031,844	\$ 2,885,711	\$ 48,950,442

Depreciation

Depreciation expense has been charged to functions as follows:

Instruction	\$ 535,077
Athletics	17,971
Community services	115,734
Food services	48,134
Support services	402,508
	<u>\$ 1,119,424</u>

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE E—BOND ISSUANCE COSTS

Bond issuance cost activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Bond issuance costs:				
2003	\$ 155,616	\$ -	\$ -	\$ 155,616
2006	76,426	-	-	76,426
2007	80,787	-	-	80,787
	<u>312,829</u>	<u>-</u>	<u>-</u>	<u>312,829</u>
Less accumulated amortization				
2003	22,564	7,003	-	29,567
2006	5,662	2,831	-	8,493
2007	-	3,107	-	3,107
	<u>28,226</u>	<u>12,941</u>	<u>-</u>	<u>41,167</u>
Bond issuance costs, net	<u>\$ 284,603</u>	<u>\$ (12,941)</u>	<u>\$ -</u>	<u>\$ 271,662</u>

Amortization expense has been charged as unallocated amortization.

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2008 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General	Community Services	\$ 108,061
Athletics	General	93
2003 Capital projects	General	3,537
Community Services	General	1,478
Community Services	Food Service	1,959
Food Service	General	870
Building and Site	General	<u>56,968</u>
		<u>\$ 172,966</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

The General Fund transferred \$435,000 to the Athletics Fund to finance operations and \$261,843 to the Debt Service Fund to finance debt service payments. The General Fund also transferred \$36,775 to the Community Service Fund to finance drivers' education.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE G—SHORT-TERM DEBT

The School District issues State of Michigan Municipal Bond Authority notes payable to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2007 follows:

	Balance July 1, 2007		Additions		Reductions		Balance June 30, 2008
Michigan Municipal Bond Authority note payable at 3.70%; due August 2007	\$ 2,965,832	\$	-	\$	2,965,832	\$	-
Michigan Municipal Bond Authority note payable at 3.90%; due August 2008	-		4,868,813		-		4,868,813
	<u>\$ 2,965,832</u>	\$	<u>4,868,813</u>	\$	<u>2,965,832</u>	\$	<u>4,868,813</u>

NOTE H—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Other long-term obligations include capital leases, compensated absences, termination benefits, School Bond Loan Fund, Energy Installment Purchase, and Land Contract.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2008:

	Balance July 1, 2007		Additions		Reductions		Balance June 30, 2008		Due within one year
Governmental activities:									
Bonds	\$ 44,101,579	\$	-	\$	1,190,000	\$	42,911,579	\$	1,263,241
Plus bond issuance premium	576,140		-		30,323		545,817		-
Less deferred amount on refunding	(589,334)		-		(25,688)		(563,646)		-
	<u>44,088,385</u>		-		1,194,635		42,893,750		1,263,241
Other obligations	3,935,400		1,079,401		415,174		4,599,627		282,420
	<u>\$ 48,023,785</u>	\$	<u>1,079,401</u>	\$	<u>1,609,809</u>	\$	<u>47,493,377</u>	\$	<u>1,545,661</u>

The additions for other obligations include \$1,074,133 of new draws on the School Bond Loan Fund, \$41,707 of additions to compensated absences, and \$533,305 of additions to termination benefits.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds consist of the following:

Durant bond obligation, payable in annual installments of up to \$143,123, plus interest at 4.76%. The School District is only obligated to make the annual principal and interest installments to the extent of annual State of Michigan state school aid appropriations for such installments.	\$ 246,579
2003 School Building and Site General Obligation Bond payable in annual installments ranging from \$975,000 to \$1,825,000 due May 2007 to May 2026; plus interest ranging from 2% to 5.25%	29,175,000
Plus issuance premium	545,817
2006 School Building and Site General Obligation Bond payable in annual installments ranging from \$25,000 to \$1,850,000 due May 2021 to May 2033; plus interest at 4.5%	6,620,000
Less deferred amount on refunding	(201,670)
2007 School Building and Site General Obligation Bond payable in annual installments ranging from \$40,000 to \$1,870,000 due May 2008 to May 2030; plus interest ranging from 4% to 4.2%	6,870,000
Less deferred amount on refunding	<u>(361,976)</u>
Total bonded debt	42,893,750

Other obligations

School Bond Loan Fund payable as soon as annual debt collections exceed annual debt service payment requirements; interest payable of \$10,325 is included at 5%.	3,902,045
Energy installment purchase obligation, payable in annual installments approximating \$275,000 including interest at 4.70%, with final payment in November 2008	254,000

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

Other obligations—Continued

Equipment purchase obligation payable in annual installments of \$28,420 plus interest at 2.85%, with final payment February 2009	\$ 28,421
Compensated absences and termination benefits	<u>415,161</u>
Total other obligations	<u>4,599,627</u>
	<u>\$ 47,493,377</u>

The Durant bonds, including interest, were issued in anticipation of payment to the School District as appropriated and to be appropriated by the State of Michigan under Section 11g(3) of Act 94 (State Aid payments). The School District has pledged and assigned to the bondholder all rights to these State Aid payments as security for the Bond. The note receivable on the Statement of Nets Assets is for the future appropriations from the State of Michigan to pay the Durant obligations.

Prior-year Defeasance of Debt

In prior years, the School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. On June 30, 2008, \$12,775,000 of bonds outstanding are considered defeased.

The annual requirements of principal and interest to amortize bonded debt, installment purchases and capital leases outstanding as of June 30, 2008 follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 1,545,661	\$ 1,981,270	\$ 3,526,931
2009	1,433,124	1,981,717	3,414,841
2010	1,365,506	1,867,525	3,233,031
2011	1,416,719	1,812,711	3,229,430
2011	1,427,990	1,755,839	3,183,829
2014-2018	8,125,000	7,746,656	15,871,656
2019-2023	9,125,000	5,571,096	14,696,096
2024-2028	9,485,000	3,290,728	12,775,728
2029-2033	<u>9,270,000</u>	<u>1,234,530</u>	<u>10,504,530</u>
	<u>\$ 43,194,000</u>	<u>\$ 27,242,072</u>	<u>\$ 70,436,072</u>

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE I—BOND PREMIUM

Bond issuance cost activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
2003 Bond premium	\$ 665,631	\$ -	\$ -	\$ 665,631
Less accumulated amortization	<u>89,491</u>	<u>30,323</u>	<u>-</u>	<u>119,814</u>
Bond premium, net	<u>\$ 576,140</u>	<u>\$ (30,323)</u>	<u>\$ -</u>	<u>\$ 545,817</u>

NOTE J—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE J—EMPLOYEE BENEFITS—Continued

Employee Retirement System – Defined Benefit Plan—Continued

Fund policy—Continued

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008, were 17.74 percent of payroll for July, August and September. For the period from October 1, 2007 to June 30, 2008 rates were 16.72 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPSERS Board of Trustees. The School District contributions to MPSERS for the year ended June 30, 2008, 2007 and 2006 were approximately \$2,711,000, \$2,877,000 and \$2,533,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

NOTE K—COMMITMENTS AND CONTINGENCIES

Commitments

- **Operating Leases** – The School District is involved in several lease agreements expiring at various dates through January 2012. The following is a schedule of future minimum rental payments required under operating leases for School District office equipment and transportation equipment.

Year ending June 30,	Amount
2009	\$ 105,900
2010	16,400
2011	6,100
2012	3,100
	<u>\$ 131,500</u>

Contingencies

- **Litigation** – The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the School District's legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the School District.
- **Grant Programs** – The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

Orchard View Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE L—OTHER INFORMATION

Economic dependence—Prior years revision of the State of Michigan (State) school aid formula for local public schools significantly increased State school aid, and the change in property tax laws significantly decreased local property tax revenues. As a result, State school aid represents approximately 82 percent of General Fund revenues.

Risk management—The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

NOTE M—SUBSEQUENT EVENT

In July 2008, the School District entered into a contract to repave a parking lot for an amount not to exceed \$206,700.

In August 2008, the School District received the proceeds of a \$3,500,000 Michigan Municipal Bond Authority note payable. The note payable is not subject to redemption prior to its maturity in August 2009 and bears interest at the rate of 1.7 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit, and resources of the School District.

In October 2008, the School District received the proceeds of a \$1,000,000 state aid note. The note is payable January 28, 2009 and bears interest at 3.4 percent per annum. The School District pledged for payment of the note payable, the amount of state school aid to be received plus the full faith, credit and resources of the School District.

REQUIRED SUPPLEMENTARY INFORMATION

Orchard View Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund
Year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 3,249,562	\$ 3,323,285	\$ 3,125,828	\$ (197,457)
State sources	18,153,308	18,176,630	18,219,615	42,985
Federal sources	725,903	839,445	832,962	(6,483)
Incoming transfers and other transactions	674,700	737,460	807,495	70,035
Total revenues	22,803,473	23,076,820	22,985,900	(90,920)
EXPENDITURES				
Instruction				
Basic programs	12,576,615	12,533,940	12,570,953	(37,013)
Added needs	2,124,776	2,356,727	2,395,257	(38,530)
Support services				
Pupil	822,409	957,703	954,137	3,566
Instructional staff	418,095	468,070	463,540	4,530
General administration	514,420	518,790	501,684	17,106
School administration	1,446,816	1,453,807	1,438,218	15,589
Business	349,822	427,469	487,859	(60,390)
Operation and maintenance	2,244,712	2,294,852	2,290,492	4,360
Pupil transportation services	1,120,730	1,151,701	1,188,481	(36,780)
Central	440,941	404,065	398,084	5,981
Other	48,000	38,920	34,782	4,138
Community services	5,156	6,064	2,041	4,023
Outgoing transfers and other transactions	663,500	749,825	733,619	16,206
Total expenditures	22,775,992	23,361,933	23,459,147	(97,214)
Excess (deficiency) or revenues over (under) expenditures	\$ 27,481	\$ (285,113)	(473,247)	\$ (188,134)
Fund balances at July 1, 2007			734,800	
Fund balances at June 30, 2008			\$ 261,553	

Orchard View Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
Community Services Fund
Year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 1,000,866	\$ 776,878	\$ 920,053	\$ 143,175
State sources	2,235,531	2,344,476	1,891,375	(453,101)
Federal sources	3,167,550	3,636,499	3,427,532	(208,967)
Incoming transfers and other transactions	225,000	162,687	36,775	(125,912)
Total revenues	6,628,947	6,920,540	6,275,735	(644,805)
EXPENDITURES				
Instruction				
Basic programs	554,863	611,367	566,633	44,734
Adult and continuing education	1,206,401	1,122,561	1,081,442	41,119
Support services				
Pupil	54,081	56,360	57,129	(769)
Instructional staff	643,683	715,206	706,566	8,640
General administration	51,790	19,385	19,385	-
Operations and maintenance	354,639	436,417	363,454	72,963
Pupil transportation services	12,162	9,092	8,491	601
Central	7,000	17,121	14,497	2,624
Community services	3,944,328	5,142,119	4,899,040	243,079
Total expenditures	6,828,947	8,129,628	7,716,637	412,991
Excess (deficiency) or revenues over (under) expenditures	\$ (200,000)	\$ (1,209,088)	(1,440,902)	\$ (231,814)
Fund balances at July 1, 2007			1,851,053	
Fund balances at June 30, 2008			\$ 410,151	

OTHER SUPPLEMENTAL INFORMATION

Orchard View Schools
COMBINING BALANCE SHEET
Other Governmental Funds
June 30, 2008

	Total other governmental funds	School Services		Debt Services		Capital Projects	Non-expendable
		Food Service	Athletic	2003 Debt Service	Debt Service	Building and site	Trust Fund
ASSETS							
Cash and cash equivalents	\$ 401,097	\$ 91,586	\$ 4,884	\$ 274,738	\$ -	\$ -	\$ 29,889
Receivables	6,293	-	-	-	-	-	6,293
Due from other governmental units	147,424	147,424	-	-	-	-	-
Due from other funds	57,931	870	93	-	-	56,968	-
Inventories	12,514	12,514	-	-	-	-	-
Total assets	<u>\$ 625,259</u>	<u>\$ 252,394</u>	<u>\$ 4,977</u>	<u>\$ 274,738</u>	<u>\$ -</u>	<u>\$ 56,968</u>	<u>\$ 36,182</u>
LIABILITIES AND FUND BALANCES (DEFICITS)							
Liabilities							
Accounts payable	\$ 31,261	\$ 31,196	\$ 65	\$ -	\$ -	\$ -	\$ -
Due to other funds	1,959	1,959	-	-	-	-	-
Total liabilities	33,220	33,155	65	-	-	-	-
Fund balances (deficits)							
Reserved for:							
Inventories	12,514	12,514	-	-	-	-	-
Permanent funds	36,182	-	-	-	-	-	36,182
Capital projects	56,968	-	-	-	-	56,968	-
Debt service	274,738	-	-	274,738	-	-	-
Unreserved							
Undesignated	211,637	206,725	4,912	-	-	-	-
Total fund balances	592,039	219,239	4,912	274,738	-	56,968	36,182
Total liabilities and fund balances	<u>\$ 625,259</u>	<u>\$ 252,394</u>	<u>\$ 4,977</u>	<u>\$ 274,738</u>	<u>\$ -</u>	<u>\$ 56,968</u>	<u>\$ 36,182</u>

Orchard View Schools
**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES (DEFICITS)**

Other Governmental Funds
For the year ended June 30, 2008

	Total other governmental funds	School Services		Debt Services		Capital Projects Building and site	Non-expendable Trust Fund
		Food Service	Athletic	2003 Debt Service	Debt Service		
REVENUES							
Local sources							
Property taxes	\$ 2,379,788	\$ -	\$ -	\$ 2,379,788	\$ -	\$ -	\$ -
Investment earnings	16,947	4,802	-	11,769	-	-	376
Fees and charges	332,685	245,220	87,465	-	-	-	-
Total local sources	2,729,420	250,022	87,465	2,391,557	-	-	376
State sources	77,652	77,652	-	-	-	-	-
Federal sources	902,771	902,771	-	-	-	-	-
Total revenues	3,709,843	1,230,445	87,465	2,391,557	-	-	376
EXPENDITURES							
Food services	1,244,625	1,244,625	-	-	-	-	-
Athletics	517,947	-	517,947	-	-	-	-
Debt service							
Principal	1,440,000	-	-	1,190,000	250,000	-	-
Interest and other charges	2,000,288	-	-	1,988,445	11,843	-	-
Advance refunding escrow	-	-	-	-	-	-	-
Bond refunding costs	-	-	-	-	-	-	-
Total expenditures	5,202,860	1,244,625	517,947	3,178,445	261,843	-	-
Excess (deficiencies) revenues over (under) expenditures	(1,493,017)	(14,180)	(430,482)	(786,888)	(261,843)	-	376
OTHER FINANCING SOURCES (USES)							
Loan proceeds	1,050,838	-	-	1,050,838	-	-	-
Transfers in	696,843	-	435,000	-	261,843	-	-
Transfers to other governmental units and other transactions	(22,581)	(22,581)	-	-	-	-	-
Total other financing sources	1,725,100	(22,581)	435,000	1,050,838	261,843	-	-
Net change in fund balances	232,083	(36,761)	4,518	263,950	-	-	376
Fund balances at July 1, 2007	359,956	256,000	394	10,788	-	56,968	35,806
Fund balances at June 30, 2008	\$ 592,039	\$ 219,239	\$ 4,912	\$ 274,738	\$ -	\$ 56,968	\$ 36,182

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 9, 2008

Board of Education and
Patricia Walstra
Orchard View Schools
Muskegon, MI

In planning and performing our audit of the financial statements of Orchard View Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Orchard View School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of the Board of Education, management, others within the Organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCIES

Cash Receipts

Recommendation 1: Community Education cash receipt review procedure should be strengthened.

During our year end testing, we noted several Community Education cash receipts that required reclassification because they were recorded in the incorrect account and/or incorrect fiscal year.

The strengthening of review procedures in Community Education cash receipt function would reduce the opportunity for receipts to be recorded in the incorrect fiscal year and/or general ledger account.

Recommendation 2: School District policies and procedures for lunch sales should be followed and any variances should be approved by both the Building Principal and the Business Manager.

During our testing of Food Service revenues, we noted that students were being allowed to eat lunch in violation of School District policies. Any variances from School District policy should be signed and approved by the Building Principal.

The review and approval of variances from School District policies would reduce the chance of the School District foregoing revenues without knowledge of that foregone revenue.

Journal Entries

Recommendation 3: All standard journal entry sheets should clearly indicate the journal entry review.

We noted several journal entries entered by the Business Manager during our testing that were not reviewed. It is School District policy to review and approve all journal entries.

The performance and documentation of journal entry review would reduce the possibility of improper transactions being recorded in the general ledger and financial statements of the School District.

Orchard View Schools
**SINGLE AUDIT OF FEDERAL
FINANCIAL ASSISTANCE PROGRAMS**

Financial Report and
Independent Auditors' Reports

June 30, 2008

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BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 9, 2008

Board of Education
Orchard View Schools
Muskegon, Michigan

We have audited the financial statements of Orchard View Schools as of and for the year ended June 30, 2008 and have issued our report thereon dated October 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Orchard View Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Orchard View Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Orchard View Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as Findings 1 - 3, to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Board of Education
October 9, 2008
Page 2

Compliance

As part of obtaining reasonable assurance about whether Orchard View Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Orchard View Schools' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Orchard View Schools' response and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC in black ink.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 9, 2008

Board of Education
Orchard View Schools
Muskegon, Michigan

Compliance

We have audited the compliance of Orchard View Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Orchard View Schools' major federal programs are identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Responses. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Orchard View Schools' management. Our responsibility is to express an opinion on Orchard View Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Orchard View Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Orchard View Schools' compliance with those requirements.

In our opinion, Orchard View Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Orchard View Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Orchard View Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Orchard View Schools' internal control over compliance.

Board of Education
October 9, 2008
Page 2

Internal Control Over Compliance—Continued

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Orchard View Schools as of and for the year ended June 30, 2008 and have issued our report thereon dated October 9, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature of Brickley DeLong, PLC in black ink.

Orchard View Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued	Cash or	Expenditures			Accrued
			(deferred) revenue July 1, 2007	payments in kind received (cash basis)	(accrual basis)	Prior year	Current year	Total
<i>U.S. Department of Education</i>								
Programs passed through Michigan								
Department of Education:								
Adult Basic Education English Literacy / Civics	84.002							
071120-7500657		\$ 16,900	\$ 2,697	\$ 2,697	\$ 16,900	\$ -	\$ 16,900	\$ -
081120-8500657		16,900	-	15,081	-	16,900	16,900	1,819
		33,800	2,697	17,778	16,900	16,900	33,800	1,819
Title I	84.010							
071530-0607		435,463	34,802	33,082	432,027	(1,720)	430,307	-
081530-0708		499,002	-	357,172	-	496,386	496,386	139,214
		934,465	34,802	390,254	432,027	494,666	926,693	139,214
Even Start	84.213							
070390-C0719CES		225,000	39,623	39,623	225,000	-	225,000	-
080390-A0803IES		225,000	-	146,503	-	225,000	225,000	78,497
		450,000	39,623	186,126	225,000	225,000	450,000	78,497
Title V	84.298							
080250-0708		3,536	-	-	-	3,536	3,536	3,536
Technology Literacy	84.318							
084290-0708		4,690	-	2,029	-	4,690	4,690	2,661
Improving Teacher Quality	84.367							
070520-0607		160,193	9,924	-	90,020	(9,924)	80,096	-
080520-0708		161,525	-	96,535	-	133,130	133,130	36,595
		321,718	9,924	96,535	90,020	123,206	213,226	36,595
Total passed through Michigan Department of Education		1,748,209	87,046	692,722	763,947	867,998	1,631,945	262,322

Orchard View Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued (deferred) revenue July 1, 2007	Cash or payments in kind received (cash basis)	Expenditures (accrual basis)			Accrued (deferred) revenue June 30, 2008
					Prior year	Current year	Total	
<i>U.S. Department of Education—Continued</i>								
Programs passed through Muskegon Area								
Intermediate School District:								
Federal Adult Education ABE Instruction								
071130-710587	84.002	\$ 133,932	\$ 8,418	\$ 8,418	\$ 85,147	\$ -	\$ 85,147	\$ -
081130-710587		63,099	-	63,099	-	63,099	63,099	-
		197,031	8,418	71,517	85,147	63,099	148,246	-
Drug free schools	84.186							
072860-0506		9,833	9,833	9,833	9,833	-	9,833	-
082860-0708		10,637	-	10,637	-	10,637	10,637	-
		20,470	9,833	20,470	9,833	10,637	20,470	-
Total passed through Muskegon Area								
Intermediate School District		217,501	18,251	91,987	94,980	73,736	168,716	-
Total U.S. Department of Education		1,965,710	105,297	784,709	858,927	941,734	1,800,661	262,322
<i>U.S. Department of Agriculture</i>								
Programs passed through Michigan Department of								
Education:								
National School Lunch and Breakfast	10.550							
Entitlement commodities		40,879	-	40,879	-	40,879	40,879	-
Bonus commodities		19,276	-	19,276	-	19,276	19,276	-
		60,155	-	60,155	-	60,155	60,155	-
Nutrition Cluster	10.553							
071970 Breakfast		127,837	19,816	35,874	111,779	16,058	127,837	-
081970 Breakfast		148,956	-	119,657	-	148,956	148,956	29,299
		276,793	19,816	155,531	111,779	165,014	276,793	29,299
071950 All lunches	10.555	447,111	12,026	22,571	71,927	10,545	82,472	-
071960 Free and reduced		477,184	69,037	130,819	415,402	61,782	477,184	-
081950 All lunches		66,227	-	66,227	-	66,227	66,227	-
081960 Free and reduced		502,735	-	403,836	-	502,735	502,735	98,899
		1,493,257	81,063	623,453	487,329	641,289	1,128,618	98,899
070900 Summer Food Services	10.559	29,910	6,597	29,910	6,597	23,313	29,910	-
071900 Summer Food Services		3,077	680	3,077	680	2,397	3,077	-
080900 Summer Food Services		9,712	-	-	-	9,712	9,712	9,712
081900 Summer Food Services		1,006	-	-	-	1,006	1,006	1,006
		43,705	7,277	32,987	7,277	36,428	43,705	10,718
Total nutrition cluster		1,813,755	108,156	811,971	606,385	842,731	1,449,116	138,916
071920 Child Care Food Program	10.558	4,634	-	4,634	-	4,634	4,634	-
081920 Child Care Food Program		12,251	-	12,251	-	12,251	12,251	-
		16,885	-	16,885	-	16,885	16,885	-
Total U.S. Department of Agriculture		1,890,795	108,156	889,011	606,385	919,771	1,526,156	138,916

Orchard View Schools
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS—CONTINUED
For the year ended June 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Program or award amount	Accrued	Cash or	Expenditures			Accrued
			(deferred) revenue July 1, 2007	payments in kind received (cash basis)	Prior year	Current year	Total	(deferred) revenue June 30, 2008
<i>U.S. Department of Health and Human Services</i>								
Programs passed through Muskegon Area								
Intermediate School District:								
Medical Assistance Program XIX	93.778							
393		\$ 10,728	\$ -	\$ 10,728	\$ -	\$ 10,728	\$ 10,728	\$ -
Head start program	93.600							
05CH8258/08		805,528	198,152	572,958	430,722	374,806	805,528	-
05CH8258/09		768,744	-	327,488	-	464,972	464,972	137,484
		1,574,272	198,152	900,446	430,722	839,778	1,270,500	137,484
Total U.S. Department of Health and Human Services		1,585,000	198,152	911,174	430,722	850,506	1,281,228	137,484
<i>U.S. Department of Labor</i>								
Programs passed through County of								
Muskegon:								
Workforce Investment Act	17.258							
409595/WIA-06/07		576,883	230,261	334,897	472,245	104,636	576,881	-
409595/WIA-07/08		382,335	-	324,963	-	382,335	382,335	57,372
		959,218	230,261	659,860	472,245	486,971	959,216	57,372
Welfare to Work	17.253							
409595/WP-0609		101,982	-	101,982	-	101,982	101,982	-
601445/WP-0609		72,861	-	53,291	-	72,861	72,861	19,570
409595/WR-07		1,496,297	-	711,671	784,626	711,671	1,496,297	-
409595/WR-08		909,169	-	859,449	-	909,169	909,169	49,720
		2,580,309	-	1,726,393	784,626	1,795,683	2,580,309	69,290
Total U.S. Department of Labor		3,539,527	230,261	2,386,253	1,256,871	2,282,654	3,539,525	126,662
TOTAL FEDERAL ASSISTANCE		\$ 8,820,351	\$ 641,866	\$ 4,971,147	\$ 3,152,905	\$ 4,994,665	\$ 8,147,570	\$ 665,384

The accompanying notes are an integral part of this schedule.

Orchard View Schools
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2008

1. Please see the financial statements footnotes for the significant accounting policies used in preparing this schedule.
2. Management has utilized the Grant Section Auditors Report (form R7120) and CMS Grant Auditor Report (GAR) in preparing the Schedule of Expenditures of Federal Awards.
3. Reconciliation of revenues from federal sources per governmental funds financial statements and expenditures per single audit report schedule of federal awards.

Revenues from federal sources per June 30, 2008 financial statements

General Fund	\$ 832,962	
Other governmental funds (including Food Service Fund)	902,771	
Community Service Fund	<u>3,427,532</u>	\$ <u>5,163,265</u>

Plus Adult Education Program federal revenues included in
state revenues in the financial statements

16,900

Less state grants for Medicaid included in federal revenues
in the financial statements

(185,500)

Expenditures per single audit report

Schedule of Federal Financial Assistance	\$ <u><u>4,994,665</u></u>
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Orchard View Schools
SCHEDULE OF FINDINGS AND RESPONSES
Year ended June 30, 2008

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Orchard View Schools.
2. **Three (3)** significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and are reported in Part B of this schedule. These significant deficiencies are not reported as material weaknesses.
3. **No** instances of noncompliance material to the financial statements of Orchard View Schools were disclosed during the audit as reported in Part B of this schedule.
4. There were **no** significant deficiencies disclosed during the audit of the major federal award programs as reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and as reported in Part C of this schedule.
5. The auditors' report on compliance for the major federal award programs for Orchard View Schools expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this schedule.
7. The programs tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
<i>U.S. Department of Agriculture</i> National School Lunch Cluster	10.553, 10.555 and 10.559
<i>U.S. Department of Education</i> Title I	84.010
<i>U.S. Department of Health and Human Services</i> Head Start	93.600

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Orchard View Schools was determined to be a low-risk auditee.

Orchard View Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

Fiscal 2008 Finding No. 1: Community Education Cash Receipts Review Procedures

Criteria: Cash receipts should be properly recorded in the correct general ledger account and correct fiscal year.

Condition: During our detailed testing, we noted several Community Education cash receipts transactions were recorded in an incorrect general ledger account and/or incorrect fiscal year.

Cause: The School District has not established effective review procedures over Community Education cash receipts transaction.

Effect: Cash receipts transactions were incorrectly recorded in the general ledger requiring reclassification journal entries.

Recommendation: Community Education cash receipts review procedures should be strengthened.

School District Response: The School District agrees with the finding and will require all Community Education cash receipts to have the proper documentation for proper recording in the general ledger.

Fiscal 2008 Finding No. 2: School Lunch Sales Procedures

Criteria: Variances from student lunch sale policies should be approved by an appropriate school official.

Condition: During our detailed testing, we noted that students were being allowed to eat lunch in violation of School District policies.

Cause: School lunch staff failed to comply with established School District policies.

Effect: Students were allowed to eat lunch without payment and without variances approved by the building principal.

Recommendation: School District policies and procedures for lunch sales should be followed and any variances should be approved by both the building principal and the business manager.

School District Response: The School District agrees with the finding and will follow the policies/procedures already in place regarding lunch sales to students.

Orchard View Schools
SCHEDULE OF FINDINGS AND RESPONSES—CONTINUED
Year ended June 30, 2008

B. FINDINGS RELATING TO THE AUDIT OF THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2008 Finding No. 3: Journal Entry Approval Procedures

Criteria: General ledger journal entries should be reviewed and approved by an appropriate individual.

Condition: During our detailed testing, we noted several journal entries recorded by the business manager were not reviewed and approved.

Cause: The business manager did not request another individual to review the journal entries.

Effect: The journal entries did not receive a review as required by School District policy.

Recommendation: All standard journal entry sheets should clearly indicate the journal entry review.

School District Response: The School District agrees with the finding and will require another individual to review the journal entries recorded by the business manager and sign off on them.

C. FINDINGS RELATING TO THE MAJOR FEDERAL AWARD PROGRAMS AUDIT, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH OMB CIRCULAR A-133

COMPLIANCE

NONE

SIGNIFICANT DEFICIENCIES

NONE

CLIENT DOCUMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

October 9, 2008

Michigan Department of Education
Lansing, Michigan

Orchard View Schools respectfully submits the following summary of the current status of prior audit findings contained in the single audit report for the year ended June 30, 2007 dated October 4, 2007.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings in relation to the financial statement audit.

SIGNIFICANT DEFICIENCIES

Fiscal 2007 Finding No. 1: Purchase Card Documentation Procedures

Condition: Several purchase card transactions were missing the account distribution to support the posting of the transactions to the general ledger.

Recommendation: Purchase card transactions should have the account distribution clearly identified in the voucher package.

Current Status: *No* similar finding was noted during our single audit for the year ended June 30, 2008.

Fiscal 2007 Finding No. 2: Community Education Cash Receipt Documentation Procedures

Condition: Several Communication Education cash receipts did not include proper account number distributions and date to enable staff to record the cash receipts in the proper general ledger account and/or fiscal year.

Recommendation: The School District's established Community Education cash receipt documentation procedures should be followed by employees.

Current Status: See Fiscal 2008 Finding No. 1 for a similar finding noted during our single audit for the year ended June 30, 2008.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2007 Finding No. 3: Detailed Fixed Asset Record Procedures

Condition: An inventory of fixed assets is maintained by a third party inventory company. The inventory report did not reconcile with prior year reports due to the inaccurate preparation of a completely new data base for the inventory.

Recommendation: The School District should consider maintaining its own data base of the physical inventory of fixed assets or seek another third party to maintain such records.

Current Status: **No** similar finding was noted during our single audit for the year ended June 30, 2008.

U.S. Departments of Health and Human Services and Education

**Fiscal 2007 Finding No. 4: Review and Approval Procedures for Title I and Head Start Programs
Title I, Part A**

Pass-through entity: Michigan Department of Education

CFDA: 84.010

Award Numbers: 071530 0607

Award Year Ends: September 30, 2007

Head Start

Pass-through entity: Muskegon Area Intermediate School District

CFDA: 93.600

Award Numbers: 05CH82581070 and 05CH8258108

Award Year Ends: November 30, 2007 and November 30, 2008

Specific Requirement: Cash Management and Reporting

Condition: There are no internal control procedures in place requiring a review or approval of work performed under Title I and Head Start cash management and reporting functions.

Recommendation: Review and approval procedures should be implemented for the Title I Head Start cash management and reporting functions.

Current Status: **No** similar finding was noted during our single audit for the year ended June 30, 2008.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

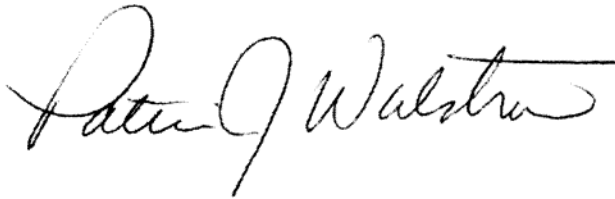
COMPLIANCE

There were *no* compliance findings in relation to the major federal award programs audit.

SIGNIFICANT DEFICIENCIES

See Finding No. 4 in Part B above.

Sincerely,

A handwritten signature in cursive script, reading "Patricia Walstra". The signature is written in black ink and is positioned below the word "Sincerely,".

Patricia Walstra
Superintendent

CORRECTIVE ACTION PLAN

October 9, 2008

Michigan Department of Education
Lansing, Michigan

Orchard View Schools respectfully submits the following Corrective Action Plan for the year ended June 30, 2008.

Name and address of independent public accounting firm:

Brickley DeLong, PLC
P.O. Box 999
Muskegon, Michigan 49443

Audit period: June 30, 2008

The findings from the Schedule of Findings and Questioned Costs for the year ended June 30, 2008 are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section A of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

B. FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

There were *no* compliance findings reported in relation to the financial statement audit.

SIGNIFICANT DEFICIENCIES

Fiscal 2008 Finding No. 1: Community Education Cash Receipts Review Procedures

Recommendation: Community Education cash receipts review procedures should be strengthened.

Action Taken: The School District will require all Community Education cash receipts to have the proper documentation for proper recording in the general ledger. All Community Education cash receipts documentation will be reviewed and approved by appropriate School District personnel.

B. FINDINGS—FINANCIAL STATEMENT AUDIT—Continued

SIGNIFICANT DEFICIENCIES—Continued

Fiscal 2008 Finding No. 2: School Lunch Sales Procedures

Recommendation: School District policies and procedures for lunch sales should be followed and any variances should be approved by both the Building Principal and the Business Manager.

Action Taken: The School District will follow the policies/procedures already in place regarding lunch sales to students. Any variance from the current policies and procedures for lunch sales will be approved by the Building Principal and the Business Manager.

Fiscal 2008 Finding No. 3: Journal Entry Approval Procedures

Recommendation: All standard journal entry sheets should clearly indicate the journal entry review.

Action Taken: The School District will require another individual to review the journal entries recorded by the business manager and sign off on them.

C. FINDINGS—MAJOR FEDERAL AWARD PROGRAMS

COMPLIANCE

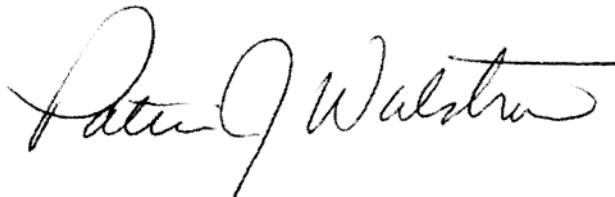
There were *no* compliance findings reported in relation to major federal award programs.

SIGNIFICANT DEFICIENCIES

There were *no* significant deficiencies reported in relation to major federal award programs.

If the Michigan Department of Education has questions regarding this plan, please call Patricia Walstra at (231) 760-1300.

Sincerely,

A handwritten signature in black ink, reading "Patricia Walstra". The signature is fluid and cursive, with the first name "Patricia" and last name "Walstra" clearly legible.

Patricia Walstra
Superintendent